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The management role of controllership.

Dryer, O. W.

George Washington University ; School of Government, Washington, District of Columbia.

THE MANAGEMENT ROLE
OF
CONTROLLERSHIP

BY

LCDR O. W. DRYER, U. S. NAVY

A TERM REPORT

FOR

DOCTOR A. REX JOHNSON
SEMINAR IN COMPTROLLERSHIP
NAVY GRADUATE COMPTROLLERSHIP COURSE

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INTRODUCTION

Controllership is not a new concept in modern business management. It is even less recent in the field of government. The office of Controller has been incorporated in the management structure of private business for many years, and it appears to be steadily increasing in numbers and in importance. The Federal government has also enjoyed the services of a controller in its administrative branches. The controllers themselves have followed the pattern of other professional groups and have organized the Controllers Institute of America to further promote and distinguish controllership as a profession. Universities have modified many of the scheduled courses in Business Administration to embrace the controllership aspects of business management, and in some instances, as at George Washington University, special courses are being conducted with particular emphasis on the various phases of controllership. The concept appears to be gaining favor in all quarters, even in Congress, as a necessary management tool. The present Administration's theme of "cost consciousness" has been conveniently associated with controllership as the remedy for a long illness.

It is not grossly irrational, therefore, to conclude that the concept of controllership in business and in government must offer a real contribution to management. If this is true, is it not also logical to ask: "What is this contribution? What does a controller do? What are the functions of the controller's office?" Unfortunately, the answers to these

CHAPTER I

INTRODUCTION

Controllership is not a new concept in modern business management. It is even less recent in the field of government. The office of controller has been incorporated in the management structure of private business for many years, and it appears to be steadily increasing in numbers and in importance. The Federal government has also adopted the services of a comptroller in its administrative branches. The controllership innovations have followed the pattern of other professional groups and have organized the Controllers Institute of America to further progress and distinguish controllership as a profession. Universities have modified many of the traditional courses in business administration to endorse the controllership concepts of business management, and in some instances, as at Georgetown University, special courses are being conducted with practitioner emphasis on the various phases of controllership. The concept appears to be gaining favor in all quarters, even in Congress, as a necessary management tool. The present Administration's issue of "more businesslike" has been numerously associated with controllership as the remedy for a long illness.

It is not greatly irrational, therefore, to conclude that the concept of controllership in business and in government has after a real contribution to management. If this is true, is it not also logical to ask, "What is this contribution? What does a controller do? What are the functions of the controller's office?" Unfortunately, the answers to these

questions are not only inconsistent and divergent in opinion, but down right confusing. In all quarters of business management and government administration there are many concepts of the functions of a controller, and they are quite often inconsistent with actual practices. The academic writings, although less divergent in opinion, have been conveniently directed toward control of the figure function in business management, and the student is understandably confused as to the real contribution of controllership.

There is probably some merit to each of the various concepts of controllership because each idea embraces certain functions which appear most important to individual situations and to certain professional groups. But there is evidence of abuse of the controllership concept in business, and it appears that a concerted effort is being made by the accounting profession to peg controllership to control of the figure function in business management. This is indeed an unfortunate movement and surely compromises the real need for controllership in the management structure. If allowed to continue, controllership is doomed to die a traitor's death and management will have failed to protect the interests of the stockholders; responsibility will be misdirected and the controller's office will bear the burden of guilt because management did not receive vital information.

This paper is an attempt to analyze the various controllership concepts and to point out wherein certain practices are not fulfilling the real need of management. If the controllership concept is a valid management tool, it must offer a real contribution. The role of controllership should lend itself to variation with respect to the scope and magnitude of individual situations, but not to the aim of making a real contribution to management. A concept of this management role of controllership will be presented

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in the following paragraphs. It is not expected that every one will agree with the interpretation presented herein, although it is partly subscribed in many quarters. However, there can be little quarrel with the management needs that are presented, and the arguments discussed here merely nominate the controller to fulfill those needs and thereby make a real contribution to management.

PART II

EVOLUTION OF THE CONTROLLERSHIP FUNCTION IN AMERICAN BUSINESS

Early history.--The office of Controller is not a modern innovation in American business. Early history dates back to 1880, when The Atchison, Topeka & Santa Fe Railway System established the office of "Comptroller."[1] It appears that the railroads were the first of the American business corporations to recognize the need for a controller in the management organization. This was undoubtedly due to the rapid expansion of the railroad empires between 1860 and 1880. During this period the transportation system of the country was undergoing a major change. The railroads were expanding their networks; equipment was being radically improved with the invention and use of the Pullman car, the diner and the regrigerator car; the first steel rails were rolled in 1865 from Bessemer steel; and Federal, state and local governments were convinced of the growth potential and gave the railroads substantial land grants and other financial aid.[2] It is not surprising that it was during this period that the railroads first recognized the need for additional management control of financial activities. The Southern Pacific Company established the office of comptroller in 1885, the New York, New Haven & Hartford Railroad Company in 1887, the Illinois Central System

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[1] T. F. Bradshaw and C. C. Hull, Controllership in Modern Management (Chicago: Richard D. Irwin, Inc., 1950), p. 16.

[2] America's Wealth (Washington, D. C.: The Brookings Institution, 1952), p. 9.

CHAPTER II

EVOLUTION OF THE CONTROLLERSHIP STRUCTURE IN AMERICAN RAILROADS

Early history.—The office of controller is not a novel innovation in American business. Early history dates back to 1849, when the railroad, Tuscan & Dorse by Rollad Lyman established the office of "comptroller."[1] It appears that the railroads were the first of the nascent business corporations to recognize the need for a controller in the management organization. This was undoubtedly due to the rapid expansion of the railroad system between 1850 and 1860. During this period the transportation system of the country was undergoing a major change. The railroads were adopting steam locomotive equipment and being constantly improved upon the invention and use of the railroad car, the sleeper and the refrigerator car, the first steel rails were rolled in 1858 from Pennsylvania steel; and finally, since the local governments were anxious of the growth promised and gave extensive subsidies in lands and other financial aid.[2] It is not surprising that it was during this period that the railroads first recognized the need for additional management control of financial activities. The Baltimore Ohio Railroad company established the office of comptroller in 1868, the first, followed by the Pennsylvania Railroad company in 1869. The Illinois Central system

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[1] F. F. Wheeler and G. C. Smith, *Organization of Modern Business* (Chicago: Dodge & Irwin Inc., 1960), p. 12.

[2] Beckman's Daily (Washington: D. C.: The Brookings Institution, 1954), p. 2.

and the Lehigh Valley Railroad Company in 1890.[3] It is important to note that this initial recognition of the controllership function in American business was for the control of certain financial activities, rather than for the accounting function.[4]

The great rise of American industrial corporations followed in the wake of the transportation revolution. During the first ten years of the new century the value of manufactured goods doubled; the volume increased by two-thirds; and the number of manufacturing workers increased forty percent.[5] This period of expansion was really launched in the latter quarter of the nineteenth century by the many new scientific discoveries and technological applications. Electricity for light and power, the telephone for voice communication, and numerous other important discoveries exploded in the lap of American industry. It is not surprising then that it was also during this period that industrial corporations recognized the need for additional control of certain management functions and established the office of controller. The earliest industrial controllership was established by the General Electric Company in 1892, and the Consolidated Edison Company of New York, Incorporated established a similar office in 1900.[6] Again, it is important to note that the early controller was not the chief accounting officer. His duties related largely to financial matters and policies.

Recent history.--Since the turn of the century nearly all areas of business activity have been embraced in a vigorous and continuous pattern of

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[3]Bradshaw and Hull, op. cit., p. 16.

[4]J. Hugh Jackson, The Comptroller: His Functions and Organization (Cambridge: Harvard University Press, 1949), pp. 7-8.

[5]America's Wealth (Washington, D. C.: The Brookings Institution, 1952), p. 16.

[6]Bradshaw and Hull, op. cit., p. 17.

the Rio Grande Valley railroad company in 1890.[4] It is important to note that this initial investigation of the exploitation involving or creating business was for the sakeof of certain financial activities, rather than for the accompanying functions.[5]

The great flow of American industrial expansion followed in the wake of the transportation revolution. During the first ten years of the new century the value of manufactured goods doubled the volume increased or tripled and the number of manufacturing workers increased fivefold over.[6] This period of expansion was really dominated in the latter quarter of the nineteenth century by the many and numerous discoveries and technical applications. Interestingly for light and power, the telephone and voice communications, and numerous other innovations originated in the hub of American industry. It is not surprising then that in the also during this period that innovative organizations developed the need for additional control of social environment functions and emphasized the growth of specialists. The earliest industrial contributions and emphasized the growth of the Pennsylvania Company in 1861, and the Consolidated Gas Company of New York, incorporated established a similar office in 1880.[7] Again, it is important to note that the early executive had as the chief economic officer. He dealt relatively largely in financial matters and policies.

Motor labor--Within the task of the history during all areas of business activity data was entered in a rigorous and continuous process of

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[4]Fredman and Sullivan, op. cit., p. 18.

[5]J. Hugh Jackson, The Conductors: The Executive and Organization (Cambridge: Harvard University Press, 1962), pp. 1-2.

[6]Harlan's Social Transformation in the Industrial Institutions, 1962), p. 16.

[7]Fredman and Sullivan, op. cit., p. 19.

growth and expansion. However, a chart of the various industrial indices shows dramatically that the dynamic progress of American industry has not been without periods of hesitation, temporary reverses and forced mobilization of industrial capacity. It is not difficult to see that the various periods of recession, depression and war shook the American economy to its foundations. Although the acceptance of controllership by American industry was gradually increasing, it appears that these periods of stiffening competition and government regulation gave impetus to the recognition of the controllership function as a management tool. The world depression of the thirties separated the men from the boys, and top management has since been ever mindful of the lessons that were learned. Two world wars have also left their scars on the economy of the nation and the managers of American business have learned much during these periods. Competition is the key to American business activity, and management has learned that a rapidly expanding economy provides a dynamic environment for expansion of new industries which come to life and survive as lasting competitors.

During the past decade the controllership concept has gained considerable favor both in business and in government. This period especially has been one of full employment and expanding production, new discoveries and technological developments, particularly the revolution in electronics and aviation. The atomic bomb and its associated developments have caused much concern and forward thinking with regard to the pattern of future expansion. This rapidly expanding economic atmosphere, the increase in size and complexity of business activities, and the mounting government intervention and control of business and private affairs has greatly increased the scope and magnitude of management responsibilities. It is not unusual that management, beset with these expanding responsibilities,

growth and expansion. However, a count of the various industrial nations shows ironically that the economic prospects of American industry are not been without patterns of variation. Temporary recessions can cause months-
ratios of industrial capacity. It is not difficult to see that the various periods of recession, depression and slump the American economy to its
Consequences. Although the experience of industrialized in American history was increasingly interesting, it appears that these periods of expansion-
periods and government intervention play dominant in the formulation of the economically essential at a critical point. The world conditions of the
Eighties resulted the most from the lows, and top management was also most affected of the reasons that were learned. The world were been also
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should recognize the need for additional assistance for management planning and control. This recognition has resulted in the increasing acceptance of the controllership concept in American business.

Organization of controllers.--Evidence of the growing importance of the controllership movement was highlighted when the individual controllers expressed the need for a national organization through which experiences could be compared and procedures and standards established to assist them in meeting their responsibilities more effectively. Such an organization would also help considerably in distinguishing and promoting controllership as a profession and shorten the ladder to real management status. Thus, a national organization of controllers was established in December, 1931, with the impressive title of "The Controllers Institute of America."[7] The rapid exchange of information and preparation of papers on technical subjects led to the publication of a monthly magazine, "The Controller", which was undertaken in February, 1934.[8] Local organizations, called Controls, can now be found in nearly all major cities and other industrial communities.

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[7] Ibid., pp. 32-37.

[8] Ibid., p. 35

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Organization of controllership.--Evidence of the growing importance of the controllership concept may be illustrated when the institutional controllers expressed the need for a national organization through which experiences could be compared and procedures and standards established to assist them in meeting their responsibilities more effectively. Such an organization would also help consolidate in classification and promote controllership as a profession and elevate the leader to most management status. Thus, a national organization of controllers was established in December, 1931, with the impressive title of "The Controllers Institute of America."[7] The rapid exchange of information and preparation of papers on technical subjects led to the publication of a monthly magazine, "The Controller", which has taken place in industry, like,[8] trade organizations, called Controls, and can be found in nearly all major cities and other industrial communities.

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[7] Ibid., pp. 82-87.

[8] Ibid., p. 82

PART III

PRESENT CONTRIBUTION OF CONTROLLERSHIP TO BUSINESS MANAGEMENT

Trend toward accounting functions.--Since the controllership concept has been widely accepted as a management device, it should not be difficult to delineate the various functions that are the responsibility of a controller in business today. Unfortunately, this is not the case. There are many variations and opinions in regard to the functions of a controller. The Controllers Institute of America has attempted to clarify this problem by defining the profession's position in regard to the responsibilities of the controller's office, and by setting to print a list of specific duties and a form of by-law for a corporation to govern the controller's office.[1] This undoubtedly has offered some guidance to recent organizational changes. However, many corporations established the office of controller and assigned responsibilities in accordance with the problems that appeared significant at that time. Such organizational relationships are difficult to change, and although the controller may be a member of the professional Institute he must still conform to the dictates of his company.

This variance and confusion as to functions and responsibilities appear to have weakened the contribution of controllership to management. The accountants have taken advantage of this weakness to drive a wedge into the management structure, thereby obtaining promising opportunities for the

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[1]The Controller, (January, 1947), p. 46.

"POLICY CONTROLLING OF INTELLIGENCE TO SUPPORT MANAGEMENT"

Fred Samuel concerning Functions.--Since the controllership concept has been widely accepted as a management device, it should not be difficult to delineate the various functions that are the responsibility of a controller in business today. Unfortunately, this is not the case. There are many variations and opinions in regard to the functions of a controller. The Controllers Institute of America has attempted to clarify this problem by defining the profession's position in regard to the responsibilities of the controller's office, and by making so quite a list of specific duties and a form of by-law for a corporation to grant the controller's office.[1] This manifestly has offered some guidance to newer organizational concepts. However, many corporations experiment for little of controller and analyzed responsibilities in conformance with the problems that appeared significant at that time. Some organizational relationships are difficult to manage, and although the controller may be a member of the professional institute he must still conform to the dictates of his company.

This variance and modification as to functions and responsibilities either to date reasons the participation of controllership to management. The accounting data bases networks of this business to derive a map into the management structure, thereby providing realistic opportunities for the

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[1]The Controller, (January, 1957), p. 86.

accounting profession. This initial thrust can be likened to a military maneuver in that the accountants have gained a position of advantage and now appear to be on firm ground and gradually moving forward. A cursory examination of current writings on Controllership and of the actual responsibilities of present controllers will confirm this fact. The accounting profession appears to have sold the managers of American business corporations that controllership is the control of the figure function in business management and that the head accountant is the most qualified man for that office. Since the accountants have cornered the controller market, it can be expected that the various technical papers and academic writings, along with the recommendations of the Controllers Institute, will be directed toward control of the figure function. In this manner the role of controllership in business is being skillfully steered down the path to the Chief Accountant's office. Note the direction of this guidance as being down rather than up, or in military parlance--a retreat rather than an advance. Further amplification of this point will be made in later paragraphs.

Current writing on controllership.--Since the controllership concep is enjoying a period of increasing popularity, quite naturally the academic writings are being pushed to keep pace with the movement. Many studies are being made, and it is not surprising that most of the technical articles and books are being authored by members of the accounting profession. It also is not surprising that the contents of these writings are generally i agreement with the recommendations of the Controllers Institute of America In nearly all cases the controller's primary responsibility is defined as Chief Accountant. His management contribution is a secondary function. I us document this statement with specific examples. One of the most recent books on controllership, which is recommended by the profession as an exc

accounting problems. This latter issue can be linked to a similar concern in that the accountants have gained a position of authority and are expect to be an like groups are generally serving interests. A careful consideration of various writings on controllership and of the actual responsibilities of present controllers will confirm this fact. The accounting profession appears to have sold the managers of business enterprises on the idea that controllership is the control of the finance function in business enterprises, and that the head accountant is the man qualified to fill that office. Where the accountants have converted the particular matter, it can be expected that the various technical papers and academic articles, along with the recommendations of the controllership institute, will be directed mean control of the finance function. In this manner the role of controllership in business is being artificially thrown down the road to the chief accountant's office. Such the situation of this problem as being case rather than not, or to ultimately preliminary rather than as a whole. Further amplification of this point will be made in later paragraphs.

Various writers on controllership--since the controllership movement is enjoying a period of increasing popularity, quite recently our accounting writers are being pushed to keep pace with the movement. Many articles are being made, but it is not surprising that most of the technical articles and books are being authored by members of the accounting profession. It also is not surprising that the authors of these writings are generally in agreement with the recommendations of the controllership institute or nearly in nearly all cases the controller's primary responsibility is defined as chief accountant. His management contribution is a secondary function. I am summer this authority with quoting examples. One of the best known books on controllership, which is recommended by the profession as an one

treatment of the subject, sets forth this definition: "'Controller' is the title accepted in this book as signifying the position of the chief accounting and statistical officer."[2] The authors are both Certified Public Accountants--one a university professor and the other a controller in industry. Another popular book states that controllership, "in spite of its many ramifications, is basically the record-keeping and reporting function."[3] Again, the author is a Certified Public Accountant and a controller in industry. The Corporate Treasurer's and Controller's Handbook has this to say: "In the modern business corporation, the title is used ordinarily to designate the principle officer in charge of accounts."[4] A recent accounting text states that "in a typical case, the Controller will be designated as the chief accounting officer of the company, with powers..."[5] Compare these statements with the by-law for a corporation that the Controllers Institute recommends to define the duties of a controller:

> The duties of the controller shall be to maintain adequate records of all assets, liabilities, and transactions of this corporation; to see that adequate audits thereof are currently and regularly made; and, in conjunction with other officers and department heads, to initiate and enforce measures and procedures whereby the business of this corporation shall be conducted with the maximum safety, efficiency, and economy. He shall attend all meetings....[6]

In view of these facts, there can be little argument with the charge that the accounting profession is guiding the movement of the controllership

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[2]J. B. Heckert and J. D. Willson, Controllership (New York: The Ronald Press Company, 1952), p. 7.

[3]D. R. Anderson, Practical Controllership (Chicago: Richard D. Irwin, Inc., 1949), p. 17.

[4]Lillian Doris, Corporate Treasurer's and Controller's Handbook (New York: Prentice-Hall, Inc., 1951), p. 6.

[5]W. A. Walker and W. R. Davies, Industrial Internal Auditing (New York: McGraw-Hill Book Company, Inc., 1951), p. 32.

[6]The Controller, (January, 1947), p. 46.

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[3] G. G. Gaither and J. D. Williams, Controllership (New York: The Ronald Press Company, 1953), p. 7.

[4] J. J. Lapiana, Financial Control Through Planning (Chicago: Dartnell Corp., Inc., 1961), p. 17.

[5] Julius Lewis, Corporate Treasurer's and Controller's Handbook (New York: Prentice-Hall, Inc., 1953), p. 3.

[6] G. D. Quinn and C. D. Newman, Industrial Business Analysis (New York: Commercial Book Company, Inc., 1951), p. 3.

[7] The Controller, (January, 1957), p. 44.

concept in American business. The accountants can, therefore, be held accountable for the role of controllership and for its contribution to business management. Let us next take a look at the present status of controllership in business and at the functions it is performing, and then analyze these functions in terms of their real contribution to management.

Status of the Controller.--As mentioned previously, many companies have established the office of controller, but do not subscribe to all of the recommendations of the Controllers Institute in regard to the functions, responsibilities, and status of the office. In one company the controller may operate in a staff capacity only, while in others he may have line responsibility--or he may function in both capacities. In one company he may be the chief accountant--in others the auditor, treasurer, or administrative assistant. Many controllers enjoy management status by official title as vice president--others are pegged as assistants in the lower echelon of management. In many cases the position has been given official status by specific by-laws of the corporation, while in others the office is merely established by management. Again, the role of a controller in American business appears to depend upon the requirements of the individual business enterprises at the time the office is established.

A method of business administration--such as controllership--cannot grow and be widely accepted by American business without evidence of certain trends within its movement, especially under the guidance of large professional groups such as the Controllers Institute and other accounting organizations. For example, a 1947 survey of more than fifty companies, representative of a wide range of business from the standpoint of size, geographic location, and type of industry, indicated that certain trends were definitely in progress within the controllership movement. This study was conducted by

analogy to military warfare. The accountants see, variously, an idealized accountant who has grown of questionably and too the contributions to business management. Not so much have a look at the present status of accountancy in business not as the functions it is performing, and then analyze some functions in terms of their contribution to management.

Areas of the controller--We mentioned previously that companies have established the office of controller, but in not whereas so well as the responsibilities of the controller function is regard to the functions, responsibilities, was areas of his office. In the larger-size industry may operate in a small capacity only, while in others he may have line responsibility--or be our function in both capacities. In our company he is the chief accountant--in others the auditor, treasurer, or administrative assistant. Many controllers enjoy managerial status by official title or they practically--where he is assistant in the line function of management. In many cases the position has been elevated itself to equality by the corporations which to report the office to a staff established to management. Again, the role of a controller in smaller business appears to depend upon the requirements of the individual business enterprises as the time and styles is essentially.

A method of business administration--we be considerable--means that can be study analysis of limited functions without reference to various areas within the necessarily separately about the problems of large international firms such as the controller's institutes and other educational organizations. For example, a 1947 survey of more than 1,[illegible] companies reported a wide range of functions that the study that of cost, financial location, and type of industry, indicated that certain things were satisfactorily in progress within the semi-fiscal management. This study was conducted by

the Metropolitan Life Insurance Company in cooperation with the Controllers Institute of America. The following observations were indicative of the trend in regard to the status of the controller in 1947, and present practices appear to reaffirm this study:[7]

> 1. The controller's job is pretty generally established as an official one, with the title of Vice President.
> 2. The prescribing of the duties of the controller in the corporation by-laws is not as commonly followed as might be expected from the official status of the position. Usually the duties, as prescribed in the by-laws, are expressed in rather broad, general terms.
> 3. Typically, the controller is not a member of the board of directors.
> 4. Most commonly the controller is appointed or elected by the board of directors.
> 5. Since the controller ranks as a senior company executive, it is customary to find him reporting directly to the chief executive or top management of the company.

Unquestionably, the controller is not on the second team--he is a member of the management group, and it logically follows that his functions should relate to management problems. Interesting statistics are available in this regard.

Functions and responsibilities.--It would probably be difficult to find two controllers with identical functions and responsibilities. However, there are certain areas in which the controller normally operates, and variations in regard to specific duties are affected by the characteristics of each type of business. The survey conducted by the Metropolitan Life Insurance Company points out those areas in which the controller is normally interested. In order to get some measure of the extent to which specific duties were assigned to a controller and the variations in practice, a composite check list of activities was prepared and the companies participating in this study were asked to indicate those for which the

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[7] Functions of the Controller (New York: Metropolitan Life Insurance Company, 1947), pp. 10-11.

the delegation this business energy is responsible also for developing measures of control. The following observations may highlight of the basis in regard to our study of the marketing in Ghana, can provide some ideas appear to realize this study.[1]

1. The community's job is getting increasingly standardized as to what goes now, with the style of life changing.

2. The growthing of the notion of the marketing is not sufficient because in our society is not as economic factors is right to operate from the political status of the politics. Usually the money, as provided in the systems, are expressed in rather broad, general terms.

3. Applicability the economics is not a matter of the need of directors.

4. Some necessity the marketing is expressed or stated by the lack of direction.

5. Since the economics means as a social sciences, it is necessary to find the reporting directly to the chief executive of the management of the company.

Unfortunately, the marketing is not in the whole business is a matter of the management policy and is usually taking into the business social values to management practices. Commercial institutions are similar to this regard.

Problems and responsibilities—It would probably be difficult to find two companies with identical functions and responsibilities. However, there are certain areas in which the marketing manager operates, and variations in degree in specific duties are affected by the management habit of each firm at centers. The strong emphasis by the management like insurance company public are those cases in which the marketing is usually interested. In order to get this degree of the areas to which specific duties are related to a marketing are the relations in production, a complete sense list of activities the program and the supplies particularly in activities. Are areas in business range in which the

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[1] Problems of the Executive (New York: International Ltd Business company, Inc.), p. 34-41.

controller was responsible. The results of this survey, showing the number of companies reporting affirmatively on each item, are as follows:[8]

Check List of Controller's Functions

	Companies in which included	
	With Qualifications	As Stated
1. General Accounting Activities.		
(a) Devise, install, and maintain books of account and related records.	0	49
(b) Devise or approve accounting methods, systems, or practices.	0	51
(c) Preparation of customer's invoices (billing).	0	42
(d) Verification and approval of vouchers payable.	1	45
(e) Preparation and signing or co-signing of disbursement checks	12	32
(f) Devise and administer payroll procedure, including computation of pay	3	43
(g) Maintain plant and equipment records and accounts, including determination of depreciation rates.	1	48
(h) Cost accounting operations related to production, distribution, or commercial activities.	3	43
2. Financial reports and statements.		
(a) Preparation and approval of all financial statements and reports for the guidance of the management or for publication or distribution to stockholders, to the public, or to governmental agencies.	1	50
3. Auditing.		
(a) Prescribe internal auditing procedure . . .	2	48
(b) Conduct continuous and periodic audits of all company activities and locations. .	2	47
(c) Check conformance with laws and governmental regulations	3	44
(d) Select, employ, and work with outside public accountants	13	18

[8] Ibid., pp. 44-47.

[illegible] are [illegible]. The results of this survey, showing the number of companies reporting affirmatively on each item, are as follows:[3]

Check list of Controller's functions.

	Companies in which included with qualifications	Companies in which included
1. General accounting activities.		
(a) Daily, monthly, and quarterly preparation of accounts and related records.	0	22
(b) Daily or weekly accounting entries, expense, or journals.	0	21
(c) Preparation of customer's invoices (billing).	0	22
(d) Verification and approval of vouchers payable.	1	21
(e) Preparation and filing or co-signing of disbursement checks	12	22
(f) Daily and monthly payroll preparation, including computation of pay	1	22
(g) Maintain plant and equipment records and accounts, including determination of depreciation rates.	1	22
(h) Cost accounting operations relative to production, distribution, or commercial activities.	0	22
2. Financial reports and statements.		
(a) Preparation and approval of all financial statements and reports for the guidance of the management or the information or enlightenment of stockholders, to the public, or to taxing bodies.	1	20
3. Auditing.		
(a) Provide internal auditing procedure . . .	0	22
(b) Review accounts and records single or all company activities and locations. .	1	21
(c) Check conformance with laws and agreements, legal requirements	0	22
(d) Safely adjust, and have also custody of public resources	12	12

[3] Ibid., pp. [illegible].

	Companies in which included	
	With Qualifications	As Stated
4. Budget Activities.		
(a) Develop a budgetary procedure.	1	35
(b) Prepare the budget	2	33
(c) Administer or assist in administration of the budget program	3	30
(d) Report and comment on budget results	0	36
5. Inventories.		
(a) Set up and maintain inventory control records	2	41
(b) Supervise the taking and pricing of physical inventory.	0	44
(c) Supervise the operation of the storerooms, raw materials, supplies, partly finished and finished stocks.	0	22
6. Office Management.		
(a) Control supervision of all office operations, including responsibility for personnel, equipment, methods, and physical factors.	8	24
(b) Develop and prescribe office systems and records, standards of office methods, forms, equipment, and supplies for all departments.	5	30
(c) Direction of general office services only--such as stenographic, typing, mail filing, etc.	1	17
(d) Staff or advisory responsibility only for office management activities . . .	3	15
7. Statistics.		
(a) Prepare and interpret all general and special statistical compilations and reports required by departmental executives.	3	43
(b) Prepare sales forecast	4	16
8. Taxes.		
(a) Prepare or supervise and sign tax returns and reports	4	44
(b) Handle claims for refunds of taxes	4	41

	Responsible in office District headquarters		
	Ser-vice-ability rating	Ex-pedite status	
5. Budget statistics.			
(a) Develop a budgetary procedure.	1	10	
(b) Prepare the budget.	2	12	
(c) Consultative or assist in administration of the budget process	3	14	
(d) Secure and command in budget results	4	16	
6. Inventories.			
(a) Set up and maintain inventory control records	5	42	
(b) Supervise the taking and pricing of physical inventory.	6	44	
(c) Supervise the operation of the storeroom, new materials, supplies, parts, fixtures and fixtured rooms.	6	46	
8. Office Management.			
(a) General supervision of all office work. Including responsibility for personnel, equipment, methods, and physical facilities.	5	28	
(b) Develop and promulgate office systems and records, procedure of office methods, forms, equipment, and supplies for all departments.	5	30	
(c) Direct or supervise office services such as stenography, typing, mail filing, etc.	1	17	
(d) Staff or supervisory responsibility only for office management activities . . .	8	19	
7. Statistics.			
(a) Prepare and interpret all general and special statistical tabulations and reports required by departmental executives.	5	24	
(b) Prepare sales forecast	4	12	
8. Taxes.			
(a) Prepare or supervise and file tax returns and reports	4	24	
(b) Handle claims for refunds of taxes	3	42	

	Companies in which included	
	With Qualifications	As Stated
9. Miscellaneous and Unusual Assignments.		
(a) General or special studies of business conditions or indices, economic conditions, trade practices, etc.	1	22
(b) Supervise preparation of bids, quotations, and price lists	1	10
(c) Purchasing operations	0	6
(d) Placing or administration of insurance programs (fire, casualty, and life) and handling of claims	5	19
(e) Supervise investments and cash balances	0	18
(f) Custody of investment securities, contracts, etc..	1	16
(g) Credit and collection activities.	0	23
(h) Handle claims from and against customers.	0	16
(i) Industrial engineering activities--motion and time studies, rate setting, etc..	3	5
(j) Following and informing the organization on governmental laws, regulations, rulings, and interpretations	5	26
(k) Negotiation or assistance in negotiation of government contracts or plant extensions	3	22

The above data clearly indicates that the contribution of the controller's office is primarily in the area of general accounting activities. Although this survey was conducted in 1947, there is little evidence to indicate any significant changes in current practices. This, of course, can be expected because of the large dependence of controllership on accounting data. Further analysis of these statistics, from the standpoint of predominant responsibilities, reveals a very interesting and significant situation with respect to the contribution of controllership to management. The following summary clearly points out the relative interest in the various areas of responsibility:

	Responsibility in equal business	
	Ex-politics	Ex-values
8. Disciplinary and General Judgments.		
(a) General or special service of business conditions or industry, economic conditions, trade practices, etc.	1	22
(b) Supervisor preparation of plan, quality, the price data	1	40
(c) Promoting operations	0	0
(d) Finding or maintenance of industrial human problems (fire, security, and life) and health of employees	6	10
(e) Supervise investments and work balance	0	32
(f) Study of investment securities, contracts, etc.	1	30
(g) Credit and collection activities.	0	22
(h) Trade claims from and against bankrupts.	0	16
(i) Industrial engineering activities—design and time studies, work setting, etc.	2	8
(j) Following and interpreting the organization to government laws, regulations, rulings, and interpretations	6	20
(k) Capitalize or maintenance in acquisition of government contracts or plant expansion	6	20

The above data clearly indicates that the contribution of the controller's office is primarily in the area of general economic activities. Although this survey was conducted in 1947, there is little evidence to indicate any significant changes in current practices. This, of course, can be expected because of the long dependence of controllership on accounting data. Further analysis of these statistics, from the standpoint of product-cost responsibilities, reveals a very interesting and significant situation with regards to the contribution of controllership in management. The following summary clearly points out the relative interest in the various areas of responsibility.

	Number of companies in which responsibility was assigned to the controller
1. Primary functions.	
(a) Financial and statistical reports	46-51
(b) Auditing accounting activities	47-50
(c) Record-keeping	46-49
(d) Tax requirements	45-48
(e) Inventory control	43-44
2. Secondary functions.	
(a) Budgetary control	33-36
(b) Government contracts and controls	25-31
(c) Office management	18-35
(d) Insurance	24
(e) Economic studies	23
(f) Credit and collections	16-23
3. Minor functions.	
(a) Sales forecasts	20
(b) Financial activities	17-18
(c) Pricing	10
(d) Management engineering	8
(e) Purchasing	6
4. Obscure functions.	
(a) Analysis and interpretation of operational data	0
(b) Management planning	0
(c) Coordination of business activities	0

These observations are rather alarming when considered from the standpoint of the contribution of controllership to management. The major effort appears to be in that area of business management which has long been controlled by the accountants--that of record-keeping and reporting. True, the accounting requirements have been vastly increased because of the expanding complexity of business, but record-keeping and reporting alone do not provide management with all the information necessary for effective and efficient

1. Primary functions.

(a) Financial and statistical reports	48-21
(b) Auditing accounting records	47-20
(c) Budgets-Control	40-19
(d) Tax departments	40-19
(e) Insurance department	40-19
(f) Cost accounting	40-19

2. Secondary functions.

(a) Budgetary control	38-18
(b) Investment contracts and controls	22-11
(c) Office management	22-11
(d) Insurance	22
(e) Economic analysis	22
(f) Credit and collections	20-17

3. Minor functions.

(a) Sales forecasts	20
(b) Financial activities	17-15
(c) Taxation	10
(d) Personnel administration	8
(e) Purchasing	7

4. Remote functions.

(a) Analysis and interpretation of operations data	5
(b) Investment planning	5
(c) Coordination of business activities	5

These conclusions are rather startling when considered from the standpoint of the activities of controllership in management. The major activities appears to be in that area of business finagement which has long been considered if the responsibility of the accountant--the area of recording and reporting. Then, the secondary responsibilities have long vaguely included areas of the economic analysis of business, but recordkeeping and reporting close to the profits management with all the information necessary for planning and activing

management. Controllership must pay its way--it must make a contribution in addition to that of record-keeping and reporting. Failing in this, there can be little justification for calling the chief accountant a controller. Unfortunately, the increasing accounting requirements appear to have resulted in a compromise of the controller's responsibilities. There is evidence that many controllers are so concerned with the details of record-keeping that they are unable to devote adequate attention to other management functions. This fact is particularly highlighted in the above summary. It was also confirmed by a number of controllers who spoke to the Navy Graduate Comptrollership Class at George Washington University during the 1952-53 term. In nearly all instances, the controller's functions were almost entirely in the area of general accounting activities. Several were not even members of the budget committee, and others appeared to have no real management planning or administrative responsibilities.

It is heartening, at least, to see that approximately two-thirds of the companies did assign budget responsibilities to the controller. It is also encouraging to note that about half of the controllers were engaged in economic studies and forecasts. But throughout this entire survey and as evidenced in current practices, there seems to be a large void in the area of analysis, interpretation, planning, and coordination. It is charged, therefore, that the contribution of controllership has been considerably lessened by focusing interest on accounting details rather than on the broader aspects of obtaining the most useful control information available.

It is believed that management has contributed somewhat to this weakness by taking certain liberties with the office of controller. This is especially evident by the wide scope of responsibilities that have been assigned to the controllers.

It appears that in some instances management has found it convenient to promote the chief accountant, or some other employee, to the title of Controller. These advancements in status are suspect when increases in salaries are not commensurate with increased responsibilities, or, worse than that, when responsibilities are not increased at all. Further advancements may be effected by establishing the controller as an officer of the company. The practice of advancement in official status in lieu of financial gain is an old story in American business, and it can only lessen controllership's contribution to the management team.

PART IV

THE REAL ROLE OF CONTROLLERSHIP

Objectives

Contribution to management.--In order to clearly understand the objectives of controllership, it is necessary to review the facts with respect to why controllership has been accepted by American business. There are few who will disagree with the premise that controllership has been accepted because management found itself in need of assistance. This is the first significant fact; it was management who needed assistance--not the shareholder, not the board of directors, not the foremen or the supervisors. Is it not relevant, therefore, that the objectives of the controller should be aimed squarely toward making a contribution to management? More important, this contribution must be an addition to the management program--not an old office with a new name, but a new office with something to offer to pay its way.

Why did management need assistance? The answer to this question covers the broad gamut of nearly all business activities. It is tied directly to the social and economic evolutions that are a part of our way of life. More specifically, management needed assistance to keep pace with the changing environment of business that harbored progress and reverses, gains and losses, survival and chaos. A recent book on management planning and control aptly expresses this situation in the following manner:[1]

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[1] B. E. Goetz, Management Planning and Control (New York: McGraw-Hill Book Company, Inc., 1949), p. 9.

The Meaning of Contributions

Objectives

Contribution to management.—In order to clearly determine the objectives of contributions, it is necessary to review the terms with respect to why contributions are been accepted in American business. There are few who will disagree with the premise that contributions has been accepted and gained acceptance from itself in need of assistance. This is the first difficult fact; it has contributions and general relationship—not the advantages, but the board of directors, are the issues of the uncertainty. It is not relevant, therefore, that the objectives of the contributor should be based merely based making a contribution in management. More important, this contribution must be in addition to the management programmed of the office with a new name, but a new office with something to offer in the way.

Why did management need assistance? The answer is this question covers the broad point of nearly all business activities. It is that strictly be the social all economic relationships that are a part of any of this. More qualitatively, management needed assistance to keep pace with the environment of business that required pictures and interests, plus the issues, survival and change. I found book on management directing the control fully expressed this situation in the following manner:[1]

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[1]— E. Cooke, Management Planning for Company (New York: Dentsen, Hall Book Company, Inc., 1957), p. 2.

Managerial problems are becoming more complex and more difficult. As a result, management needs more data, reported more promptly, more sharply oriented with respect to managerial problems and objectives, and more fully valid with respect to the changing environment of the enterprise. Major trends tending to increase management's need for data and for sharper focusing of data on problems are:

1. The growing scale and complexity of industry
2. The increasing use and importance of fixed capital
3. The increasing range and tempo of change
4. The increasing social control of business

The assistance that management needs and the reason why this need exists can now be seen quite clearly. The controller is ideally suited to advance in stature and provide this assistance to management. For this reason it was not difficult for American business to accept controllership in this expanded capacity. The objectives of the controller are, therefore, morally bound to the needs of management, and these objectives can be defined in the following manner:

1. To provide management with vital information with respect to all phases of the company's activities.
2. To provide current information that can be utilized effectively for planning and control--not historical data that is sterile for management purposes.
3. To provide information that will distinguish managerial problems and evaluate the objectives of management.
4. To provide analysis and interpretation of information to show management: (a) where it has been; (b) where it is now; (c) where it is going; and (d) what the danger signals are enroute.

Functions.--These objectives can be restated in terms of the specific areas of management in which the controller should make a significant contribution. These areas may be classified under four major headings:

Managerial problems are becoming more complex and more critical. As a result, management needs more data, reported more promptly, more simply oriented with regard to managerial problems and objectives, and more fully with some regard to the changing environment of the enterprise. Major trends leading to increase management's need for data and for effective functions of data is problems are:

1. The growing scale and complexity of industry
2. The increasing use and importance of fixed capital
3. The increasing rate and speed of change
4. The increasing social control of business

The assistance that management needs and the reasons why this need exists can not be done fully clearly. The concept is identify system to advance in events and points with assistance to management. For this reason it was not initially for involves problems to change environment in this economic capacity. The objectives of the information are, basically, normally based to the needs of management, and some objectives can be defined in the following manner:

1. To provide management with vital information with respect to all phases of the company's activities.
2. To provide current information that can be utilized effectively for planning and control--only directed data that is exactly for management purposes.
3. To provide information that will distinguish managerial problems and evaluate the objectives of management.
4. To provide analysis and interpretation of information to aids management. (a) where it has been (b) where it is now, (c) where it is going, and (d) what the major alternatives are.

Functions.--These objectives can be achieved in terms of the specific areas of management in which the accounting should make a significant contribution. These areas may be classified under four major functions.

(1) Accounting

(2) Management audit and investigation

(3) Management analysis and interpretation

(4) Management planning and control

This is not necessarily the order of importance of the controller's functions, but rather the continuity of responsibility. Let us now examine in more detail the scope of each of these areas and the specific functions that should be the primary responsibility of a controller.

The Accounting Function

Staff versus line.--The accounting function of controllership is generally considered to be primarily record-keeping and reporting of accounting information. In this capacity the controller is usually the chief accountant, and is charged with the responsibility of devising, installing, and maintaining all general financial and cost accounting operations. In addition to this, he is normally charged with the auditing and tax responsibilities. This delegation of responsibility is the normal outgrowth from the acceptance of the accountant as the most qualified person in the business organization to direct the functions of the controller. It is true that most of the information utilized for management purposes is obtained by the accounting department, but management has enjoyed capable and efficient accounting services for many years and the accounting profession has been very progressive in its practices. The controller, however, must make an additional contribution to management. As a member of the management team, the details of supervising the accounting department and maintaining record-keeping operations become less important and the overall problems of methods, systems, and procedures become more significant. Critical analysis of checks and controls replaces the precise recording of accounting operations. The

(2) Management analysis and improvement;

(3) Management planning and control;

(4) Management planning and policy;

This is not necessarily the order of importance or the responsibility lines, but rather the continuum of responsibility. Let us now examine in more detail the range of work of these areas and the specific functions that should be the primary responsibility of a consultant.

The Consultant Function

Most texts list the consulting functions of organizations in general conditions by the primary responsibility and importance of consulting information. In this category the consultant is usually the senior executive and is charged with the responsibility of evaluating, consulting and advising all functional areas and the specialists in finance, personnel and data processing operations. In addition to the consultant duties with the executive and the responsibilities. This delegation of responsibility is not based necessarily upon the knowledge of the consultant or the work qualities present in the internal organization to direct the functions of the consultant. It is from that of the informative setting for management purposes is achieved by the management departments, but management has adopted requests and activities which are active for many years and the consultant information the best only consultants have in its functions. The consultant, however, must take on decisions and consultation in management, in a manner or the management team, the consultant function is responsible. The consultant function is responsible for the management of supervising the consultant functions and maintaining consultants. Functional analysts of change, and improving business-wide significance. Functional analysts of change functions between line functions and the overall interests of business, and coordinate systems the process management of consultants and maintaining consultants.

controller's primary interest must be in the area of management and not as the head of an operating department. The controller must analyze all phases of the company's activities and advise and recommend with respect to managerial problems. He should, therefore, function primarily in a staff capacity. This is not a new concept of the controller's accounting function. One of the fundamental principles of internal control is that the record-keeping functions should be segregated and checked by some other employee. Victor H. Stempf advocated the segregation of the record-keeping function and the controller and had this to say on the subject:

> I believe that the controller should design and formulate the methods of accounting to be pursued by the company, but I don't believe that he should be directly responsible for the internal recording of transactions. I think that is an operating function. The ideal setup in a large organization is to have a chief accountant, who reports directly to the general manager and is independent of the controller, and whom the controller checks.[2]

A recent technical publication on controllership also indicates that the real function of the controller is in a staff capacity, rather than as a department head. The author expressed his views on the subject in this manner:

> If this expanding relationship of the controller to all management is truly indicative of a long-term trend, it raises the possibility that, as controllership acquires a broader or company-wide status, it will emerge on a plateau above the departmental level....Eventually, and particularly when top management does not itself possess controller experience, it seems possible that the function of controllership is likely to become more distinctly separated from accounting (and more distinctly dissociated from record-keeping). As a result, the weight of emphasis would undoubtedly tend to move further away from fact-finding, record preparation, and employee supervision toward fuller analysis and expanded interpretation as an aid to better management.[3]

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[2]D. R. Anderson, Practical Controllership (Chicago: Richard D. Irwin, Inc., 1949), p. 12.

[3]T. F. Bradshaw and C. C. Hull, Controllership in Modern Management (Chicago: Richard D. Irwin, Inc., 1950), p. 9.

controllership's primary interest must be in the area of management and not as the head of an accounting department. The controller must develop all phases of the company's accounting and analyze and interpret its results to management. He shows, therefore, institutional planning in a small company. This is not a new concept of the controller's accounting function, but the fundamental principles of internal control is that the investigating functions should be separated and unrelated to some other activities. Thus, I strongly advocated the separation of the profit-planning function and the controller and had this to say on the subject:

> I believe that the controller should design and interpret the methods of accounting to be followed by the company, but I also believe that he should be directly responsible for the internal recording of transactions. I think that is an operating function. The ideal setup is a large organization is to have a chief accountant, who reports directly to the general manager and is independent of the controller, and then the controller himself.[1]

A recent industrial publication on controllership also indicates that the real function of the controller is in a staff capacity, acting then as a department head. The author expresses his views on the subject as follows:

> If this separate relationship of the controller to all management is truly indicative of a long-term trend, it raises the possibility that, as institutional expansion a broader or overpowering status, it will emerge as a person above the departmental level...individually and particularly when top management has not clearly defined his experience, it seems possible that the function of controllership is likely to become more distinctly separated from accounting (and more distinctly disassociated from record-keeping). As a result, the major of responsibilities would ultimately tend to move further away from the function, record preparation, and emphasize supervision, review, analysis and objective interpretation as an aid to better management.[2]

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[1] R. H. Jackson, Institutional controllership (Chicago: Dartnell Corporation, Inc., 1960), p. 12.

[2] J. K. Dobrovolny and C. D. Hall, Controllership in business organizations (Chicago: Dartnell Corporation, Inc., 1960), p. 8.

This concept of segregating the controller from the record-keeping function is not merely a proposal or a whim of certain individuals. There is much evidence that business has already recognized the desirability of this arrangement. The survey conducted by the Metropolitan Life Insurance Company made particular note of this fact and reported as follows:

> ...there has been a definite change in the basic concept of the controller's position from that of a minor administrative function, concerned largely with accounting details and record-keeping, to that of a major factor in the control and profitable operation of the business as a whole. More emphasis is being placed on the controller as a staff executive serving in an advisory capacity to other departments and executives.[4]

From a practical standpoint, the size of the company would undoubtedly dictate whether the controller is charged with the record-keeping function of accounting. In a small business, it would probably not be advisable to segregate this function--primarily from a cost standpoint. The important thing is that the controller has sufficient time to effectively direct the more important management functions.

Systems, policies, and procedures.--The contribution of the controller in the area of accounting should, therefore, be concerned primarily with the determination of requirements for an effective financial and managerial accounting system. The major function of accounting is to serve managerial needs and to facilitate the attainment of managerial objectives. The determination of accounting requirements should, therefore, be made by management--not by an operating department. The implementation of these requirements can then be delegated by management to the chief accountant. This concept of the controller's responsibility for accounting embraces design and installation of corporate, financial, managerial, and cost-accounting requirements, together

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[4]Functions of the Controller (New York: Metropolitan Life Insurance Company, 1947), p. 9.

with the methods, systems, internal controls, and policies that will enable coordinated accounting operations. This responsibility can be met in part by the preparation of an accounting manual covering all phases of company operations. The controller's responsibility is continuous and professional skill is required to keep abreast of the changing environment of the business world. A system of internal analysis and investigation must be constantly employed to assure accurate reporting of necessary information. Effective internal audit procedures, under the cognizance of the controller, will provide this assurance.

Management Audit and Investigation

The auditing function.--In order to attain the objectives outlined previously, management must be provided with information that can be utilized effectively for planning and control. It is important, therefore, that the implementation of company policies and procedures is continuously evaluated, and that an adequate system of checks and controls is established and constantly reviewed. Management must also be evaluated with particular regard to matters of organization, staffing, administrative procedures, and the utilization of personnel, materials, and facilities. This is the controller's responsibility. His tools for the job are (1) internal auditing, (2) internal checks and controls, and (3) management engineering.

Internal auditing.--Since the controller prescribes the accounting procedures, he should also be charged with making the work of the accounting department more efficient. This is the task of the internal auditors. The objectives of this function are not only to prevent weakness from developing in the accounting operation because of failure to follow prescribed procedures, but also to make constructive appraisals of existing procedures with an aim toward making improvements. Internal auditing is concerned with

with the methods, systems, internal controls, and policies that will assure coordinated accounting operations. This responsibility can be met in part by the performance of an accounting manual covering all phases of company operations. The controller's responsibility is continuous and professional and is required to keep abreast of the changing environment of the business world. A system of internal controls and investigation must be constantly employed to assure accurate reporting of necessary information. Effective internal audit procedures, under the supervision of the controller, will provide this assurance.

Management Audit and Investigation

The auditing function.--In order to assess the objectives outlined previously, management must be provided with information that can be utilized effectively for planning and control. It is important, therefore, that the implementation of company policies and procedures is continuously evaluated, and that an adequate system of checks and controls is established and thoroughly reviewed. Management must also be evaluated with particular regard to matters of organization, efficiency, administrative procedures, and the utilization of personnel, materials, and facilities. This is the executive's responsibility. The tools for the job are (1) internal auditing; (2) internal checks and controls, and (3) management engineering.

Internal auditing.--Since the controller prescribes the accounting procedures, he should also be charged with making the work of the accounting department more efficient. This is the task of the internal auditors. The objectives of this function are not only to prevent weakness from developing in the accounting operation because of failure to follow prescribed procedures, but also to make constructive suggestions of material importance with an eye toward better improvements. Internal auditing is concerned with

a wide range of management activities and its overall objectives may be defined as follows:

1. The ascertainment of compliance with the organization's rules, procedures, and policies of an accounting and financial nature and their related aspects.
2. The conservation of the organization's resources and general protection of its interests with respect to assets, liabilities, revenues, and expenditures, and their related implications.
3. The verification of accounting and financial data in a broad sense, together with effective analysis of them.
4. The appraisal of existing rules, procedures, and policies relating to accounting and financial and associated activities, together with constructive recommendations which are directed toward the improvement of general company welfare.
5. The training and encouragement of personnel, together with the provision of such circumstances and conditions as are most conducive to their welfare.
6. Other services to management of a direct nature in the way of providing an effective means of contact with field operations and an impartial reporting agency; the provision of personnel for executive positions; and the furthering of the efficiency and economy of the outside audit.[5]

Internal auditing makes a separate contribution to management. It supplements the accounting department, and by its analysis and interpretation lends greater validity to the accounting data and provides management with a sounder basis for direction and control.

Internal checks and controls.--It is difficult to separate the function of internal control from that of internal auditing. In fact, it is a part of internal auditing. However, because of the specific responsibility of management to safeguard the assets of the company, it is listed as a separate responsibility. Internal control embraces the analysis of accounting methods and practices and the establishment of a system of internal checks whereby the accounting forms and records are all coordinated and operated in such a manner that maximum protection is provided against irregularities. This is an important function from which management derives the

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[5]V. Z. Brink, Internal Auditing (New York: The Ronald Press Company, 1941), p. 38.

a wide range of management activities and its overall objectives may be classed as follows:

1. The establishment of compliance with the organization's rules, procedures, and policies of an accounting and financial nature and related aspects.
2. The conservation of the organization's resources and control protection of its interests with respect to assets, liabilities, revenues, and expenditures, and their related implications.
3. The verification of accounting and financial data in a broad manner, together with efficiency analysis of them.
4. The appraisal of existing rules, procedures, and policies relating to accounting and financial and associated activities, together with nonfinancial recommendations which are directed toward the improvement of general company welfare.
5. The training and encouragement of personnel, together with the provision of such circumstances and conditions as are most conducive to their welfare.
6. Other services to management of a direct nature in the way of providing an effective means of control with field operations and an impartial reporting agency, the provision of personnel for assuming positions and the furnishing of the efficiency and accuracy of the auditor audit.[6]

Internal auditing adds a separate contribution to management. It supplements the accounting department, and by its analysis and interpretation lends greater validity to the accounting data and provides management with a sounder basis for direction and control.

Internal checks and controls.--It is difficult to separate the function of internal control from that of internal auditing. In fact, it is a part of internal auditing. However, because of the specific responsibility of management to safeguard the assets of the company, it is listed as a separate responsibility. Internal control embraces the analysis of accounting methods and procedures and the establishment of a system of internal checks whereby the accounting forms and records are all coordinated and operated in such a manner that nothing prevented is permitted against irregularities. This is an important function from which management derives the

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[6] T. E. Ritch, Internal Auditing (New York: The Ronald Press Company, 1941), p. 38.

maximum utility from the accounting records with respect to information, protection, and control.

Management engineering.--There are many differences of opinion in regard to the status of the management engineer. But, regardless of professional interests, the work of the management engineer and the internal auditor is essentially the same in certain areas of evaluation. Therefore, since the controller is charged with complete management audit, there can be little argument for excluding the management engineer from the controller's organization. In fact, it lends continuity and coordination of effort to the evaluation of the entire business organization.

Management Analysis and Interpretation

Financial and operating reports.--The analysis and interpretive function is one of the most important contributions that controllership can make to management. It should be the controller's responsibility to assemble the necessary financial and operating data, to conduct thorough analyses and interpretations, and to report to management in a manner that will enable effective utilization of these data for administrative planning and control. Financial and operating reports are management's only means of measuring the operations of the company, and they are, therefore, the basic foundation for nearly all decisions with respect to company policy and planning. In addition, there are certain legal requirements for company reports which the controller should prepare because of the liability accruing to the company. The increasing social control of business is making this function more important every day.

The controller who functions in a staff capacity, rather than as the head of an operating department, is in an advantageous position to conduct critical and constructive analysis, and to interpret the facts and figures

models utility from the accounting records relevant to behavioral, financial, and control.

Management engineering—There are many difficulties of opinion in regard to the status of the management engineer. But, regardless of ultimate interests involved, the work of the management engineer and the internal auditor is essentially the same in certain areas of evaluation. Therefore, since the engineering is concerned with employee management studies, there can be little argument for excluding the management engineer from the activity. Indeed, it is a logical extension. In fact, it lends meaningful and beneficial to the evaluation of the entire business organization.

Background analysis and interpretation.

Financial and operating reports—The analysis and interpretation of data is one of the most important activities that auditors can make to management. It should be the constructive responsible duty to emphasize the necessary financial and operating data, to measure adequately employee and independentness, and to report to management in a manner that will assure effective utilization of these data for administrative planning and control. Financial and operating reports are management's only means of measuring the operations of the business, and hence are, therefore, the basis for evaluating the manner in which managers do carry out policy and planning. In addition there are certain legal requirements for company reports which the auditor should ensure because of the liability involved to the company. The increase for market control of business is making data increasingly more important every day.

The controller and internal auditor in a small company, rather than at the head of an operating department, is in an advantageous position to conduct critical and constructive analysis, and to interpret the data and findings

to assist management in the measurement of results and in the formulation of plans and policies. The presentation of essential facts in such a manner that they can be readily understood is the real climax to the controller's contribution to management. However, presentation alone may not be sufficient. The controller must successfully communicate these facts to management. He must understand the attitudes, viewpoints, and problems of management, and make sure that the real meaning of the reports he submits is clearly understood. This is a problem that requires continuous effort and the controller should be free to devote adequate attention to this end. Fruition of the controller's efforts can be enjoyed only by successful communication of the essential facts.

Economic studies.--The reporting of external information on markets and competitive activities and on general economic activities is not usually considered a controllership responsibility; yet a cursory examination of the facts clearly indicates that these activities must be considered in the analysis and interpretation of financial and operating data. If financial and operating reports are to be useful for management planning, they must be collated with the various economic influences. The controller should, therefore, be responsible for assembling this information and for evaluation with respect to the effect on operations of the company. Economic trends are vital to management planning. A knowledge of past movements is as necessary as a record of the tides is to a ship's captain. Nearly all plans are based on forecasts and expectations. Therefore, research and study of economic and market movements are essential for complete analysis and interpretation of operating data. The stock market is a useful barometer for financial planning. There are numerous areas for continuous observation, such as interest rates, credit levels, inventory levels, trade practices, price controls,

so easily manipulated. If the availability of results can be the determinant of plans and policies. The presentation is essential factor in such a manner that they can be quickly understood in the real minds of the decision-makers's contribution to management. However, presentation alone may not be sufficient. The economical and understandably manageable data is essential part. In such situations the activities, expenditure, and problems of management can make sure that the real meaning of the reports be submits in clear indication. This is a problem that requires management effort and the cooperation should be free to favour managerial elements to take act. Frustration of the management's efforts can be avoided only by successful communication of the essential facts.

Economic analysis.--The reporting of economical information on manpower and manpower statistics and on general economic activities is not usually considered a contributing responsibility for a military establishment. The Army clerk initiative that there reports must be considered in the analysis and interpretation of financial and operating data. If financial and operating reports are to be useful for management planning, they must be combined with the various economic information. The quantitative model, therefore, is responsible for assembling data information and for evaluation this report to be entered on operations of the company. Economic reports are vital to management planning. A knowledge of past performance is essential as a record of the place in a fiscal report. Nearly all plans are based on forecasts and expectations. Therefore, research and study of economic and manpower conditions are essential for judgment analysis and interpretation of operating data. The main content is a useful background for financial planning. There are numerous direct and indirect observations, such as industry reports, market levels, inventory levels, trade practices, price activity

labor movements, industrial indices, etc. To deny controllership the study of these influences can only diminish the value of the financial and operating reports.

Management Planning and Control

Budgetary planning and control.--"The controller's responsibility begins with the reporting of facts about actual operations and extends naturally to the assembling, summarizing, and reporting of operating plans in the form of the budget and to comparisons with the reported results of other companies and of industry in general."[6] This statement clearly suggests that the budget is a tool for management planning and control, and that the controller should be responsible for this contribution. This is a real management function that can be accomplished best by a staff group--not by an operating department. Budgetary planning and control is a way of managing a business and it provides top management with the information it needs to effectively direct the operations of the company. The budget is the one tool that satisfies all of the objectives of management planning and control. These objectives, as stated in a recent article by a prominent consultant on management problems, are:[7]

1. Setting a profit goal.
2. Setting departmental goals which taken together will achieve the profit goal.
3. Measuring progress against those standards.
4. Making continuous adjustments to keep the whole organization moving in balance toward the goal.

It is not difficult to see that these objectives are completely embraced by effective budgetary procedures. This is an area of management that will make controllership pay its way in the management structure of

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[6]Bradshaw and Hull, op. cit., p. 51.

[7]T. F. Bradshaw, "The Place of the Controller in Management Planning and Control," The Controller, (October, 1952), pp . 472-500.

Labor management, industrial business week. To many controllership has many of these functions and only obtain the value of the financial and operating reports.

Management Planning and Control

Budgetary planning and control.--The controller's responsibility begins with the reporting of these above actual operations and expenses normally to the executives, committees, and reporting of operating plans in the form of the budget and in comparison with the previous results of other companies and of industry in general.[6] This assessment clearly indicates that the budget is a tool for management planning and control, and that the controller should be responsible for this construction. This is a real management function that can be accomplished best by a staff group--not by an operating department. Budgetary planning and control is a key of measuring a business and is provided by comparison with the information it would effectively direct the operations of the company. The budget is the key tool that relates all of the objectives of management planning and control. These objectives, as stated in a recent article by a prominent consultant on management problems, are:[7]

1. Setting a profit goal.
2. Setting departmental goals which taken together will achieve the profit goal.
3. Measuring progress against these standards.
4. Taking corrective adjustments in any the cause organization working to achieve overall the goal.

It is not difficult to see that these objectives are complicated and treated by effective budgetary procedures. This is an area of management that will make contributions not its key in the management structure of

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[6]Goddner and Hill, op. cit., p. 81.

[7]J. F. Brown, "The Place of the Controller in Management Planning and Control," The Controller, October, 1951, p. 474-ff.

American business. The only controlling factor is that management must recognize the need for budgetary planning and control. Budgeted businesses today are still in the minority, but it is a fact that the general trend is toward more budgetary control in industry. "It is an even more significant fact that, to the best knowledge of the authors, there is no case of any business having given up its budgetary control once it had been adopted by the organization."[8] This is, indeed, a remarkable observation, and it clearly indicates that one of the most promising contributions that the controller can offer management is in the area of budgetary control. Here is a real future for controllership. The authors of the above statement are even more enthusiastic about the role of budgeting in management and state that "budgetary control, when properly practiced, is probably the last word in the technique of scientific management and also the best method yet devised for developing the team spirit in any given organization."[9]

The survey conducted by the Metropolitan Life Insurance Company--which was discussed in Part III of this paper--showed that in actual practice budgeting was a secondary function of controllers in business. If the real objectives of management planning and control are as stated in the previous paragraphs, this practice in industry is not compatible with the objectives of management. It is probably safe to say that these objectives will not change--in fact, they are becoming more significant every day. Management must, therefore, recognize the need for budgetary control and charge the controller with this responsibility. It is only in this manner that the tools for efficient management can be used effectively, and controllership will in

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[8] W. Rautenstrauch and R. Villers, Budgetary Control (New York: Funk & Wagnalls Company in association with Modern Industry Magazine, 1950), p. 263.

[9] Ibid., p. 264.

American business. The only intervening factor is some management that applies the tools for management planning and control. Budgeted departments do exist in the industry, but it is a fact that no general trend is evident where more budgetary control is necessary. The idea seems not significant that, so the vast majority of the industry, there is no need or any business having plans by the budgetary method were it not been adopted by the organization.[6] This is indeed a remarkable observation, and it raises questions that one of the most practical considerations that the industrial engineer encounters is in the area of budgetary control. Here is a real challenge for consultants. The authors of the study statement are evidently misinformed about the risk of budgeting in management and state that "budgetary control, when properly practiced, is probably the last step in the development of scientific management and also the best method yet devised for controlling the human factor in any given organization."[7]

The survey conducted by the Stanford Life Insurance Company—which was discussed in part III of this paper—showed that in several greatly budgeted and a moderately favorable of conditions in business. In the real objectives or management planning and control are related to the previous particulars, this problem in industry is not compatible with the objectives of management. It is probably safe to say that these relationships are not always—in fact, they are lacking more significant every day. Management must, therefore, recognize the need for budgetary control and energy the and similar with this responsibility. It is only in this manner that the tools for efficient management can be used effectively, and consistently will re

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[6]W. Gutenberg and J. Tillery, Budgetary Control (New York: John a management company is responsible with modern industry requires, 1951), p. 3.

[7]Ibid., p. 3.

turn increase in stature and make a real contribution to management.

Government controls.--The increasing social control of American business has naturally distended the reporting requirements of business and also the internal control required to assure compliance with the numerous regulations, legislation, and social agreements. This is a relatively new area in management and one in which controllership can make a real contribution. Management needs capable assistance for the analysis and interpretation of these controls and for the development of decisions and policies in regard to the effect of these controls on the operations of the company. This is not only a large task, but also a very important one. Additional accounting procedures may be required for generating necessary information, and additional internal controls may be necessary to insure compliance with all regulations. The task will normally embrace legal analysis and arbitration of company problems, and the inauguration of programs that will commit the company to substantial financial responsibilities. This is a management function that should be assigned to the controller. It is a staff function that management needs in order to fulfill its responsibility to its shareholders.

PART V

SUMMARY

The real role of controllership is a management function--not one of figure collecting, record-keeping, and reporting of accounting information. These functions do not provide management with the information it needs for effective planning and control of financial and operating activities of the company. These functions can be performed by any accounting department. Controllership must make an additional contribution to management. It must bring the facts and figures to "bear where and when they will do the most good--within the management process and before the decision is made. This combination of facts, figures, and the management viewpoint provides management with objective goals, objective appraisals of performance, and a balancing of the factors and opinions that result in management decisions."[1]

Controllership must analyze, interpret, and evaluate facts and figures that are generated within the company and within the business environment; it must collate this information with respect to the management viewpoint; and it must communicate this information to management in such a manner that it will be understood. In addition, controllership must provide management with effective business systems, procedures, and controls that will not only generate planning and control information, but will also protect the interests of the shareholders. These systems must embrace prudent business policies that will

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[1] T. F. Bradshaw, Developing Men for Controllership (Boston: Harvard University Graduate School of Business Administration, 1950), p. 7.

SUMMARY

The real role of quantitatively is a management function—one of figure collecting, reasoning-judgment, and reporting of meaningful information. These functions do not provide management with the information it needs for effective planning and control of financial and operating activities in the company. These functions can be performed by any accounting department. Controllership does make an additional contribution to management. It must relate the facts and figures in "your terms" so that they will do the best good within the management process and helps the controller in doing. This association of facts, figures, and the management viewpoint provides management with objective basis, objective appreciation of performance, and a balancing of the factors and opinions that result in management decisions.[1]

Controllership must analyze, interpret, and translate facts and figures into are presented which are vague and which the business controllership; it must relate this information with respect to the managerial viewpoint; and it must communicate this information to management in such a manner that it will be understood. In addition, controllership must provide management with effective business systems, procedures, and controls that will not only guarantee planning and control information, but will also protect the interests of the shareholders. These systems must achieve proper business policies that will

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[1] T. F. Graham, Controllership for Quantitatively Inclined, Business University Graduate School of Business Administration, Ohio, p. 7.

protect the assets of the company at all times. This is a management function that can be performed best in a staff capacity--not by an operating department.

Controllership can achieve management status only by recognizing the needs of management--not by compromising the position to further the goals of the accounting profession. Management, in return, must recognize the need for this real role of controllership. Failing in this, it will be difficult for management to protect the interests of the shareholders in the rapidly changing business environment that exists today.

process and effects of the samples as all issues. This is a management function that can be performed best in a staff capacity—not by an operating department.

Controllership and auditing management errors only by reminding the needs of management—not by compromising the positions or lessening the goals of the accounting profession. Management, in return, must recognize the need for this real role of controllership. Failing in this, it will be difficult for management to protect the interests of the shareholders in the rapidly changing business environment that exists today.

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